



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LAUREL COUNTY SHERIFF**

Calendar Year 1997

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Laurel County, Kentucky, for the year ended December 31, 1997. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff is required to prepare a financial statement using the prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the year ended December 31, 1997, in conformity with the basis of accounting described above.

Our audit was made for the purpose of forming an opinion on the financial statement taken as a whole. The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance.

- The Sheriff Had A \$67,554 Deficit In His 1997 Official Fee Account
- Borrowed Money Should Be Repaid
- The Sheriff Should Have A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated August 4, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed-
August 4, 1999

LAUREL COUNTY
 GENE HOLLON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1997

Receipts

Federal Grants	\$	35,420	
State Fees For Services:			
Juvenile Transports			2,420
Circuit Court Clerk:			
Sheriff Security Service	\$	47,585	
Fines and Fees Collected		4,395	
Court Ordered Payments		<u>2,275</u>	54,255
Fiscal Court:			
County Support	\$	125,000	
Prisoner Transport		4,391	
Advertising Costs		5,015	
Election Commissions		<u>200</u>	134,606
County Clerk - Delinquent Taxes			22,188
Commission On Taxes Collected			300,557
Fees Collected For Services:			
Auto Inspections	\$	24,849	
Accident and Police Reports		1,029	
County Fees		39,282	
Serving Papers		<u>39,970</u>	105,130
Other Services:			
Carrying Concealed Deadly Weapon Permits	\$	32,500	
Transporting Mentally Ill Patients		9,460	
Pager Reimbursement		8,319	
Gasoline Refund		6,804	
Restitution		2,799	
State Refund - 1995 Taxes		5,548	
Postage		21	
Legal Fees		462	
Transit Tax		1,237	
Voided Checks		121	
Miscellaneous Income		<u>2,525</u>	69,796
Interest Earned			6,773

LAUREL COUNTY

GENE HOLLON, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Receipts (Continued)

Borrowed Money:

State Advancement	\$	150,000
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Gross Receipts	\$	881,145
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Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$	347,962
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Employee Benefits-

Employer's Share Social Security	25,220
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Employer Paid Health Insurance	22,960
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Unemployment Insurance	5,551
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Materials and Supplies-

Office Materials and Supplies	16,288
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Uniforms and Firearms	18,316
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Copier Rental	1,436
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Pagers and Radio Equipment	16,865
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K-9 Supplies	657
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Security Equipment	1,434
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Auto Expense-

Maintenance and Repairs	103,031
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Other Charges-

Dues	1,500
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Postage	2,800
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Bond	3,300
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Carrying Concealed Deadly Weapon Permits	16,735
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Drug Enforcement	5,160
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Executions	1,356
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Forfeiture Orders	240
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Jury Expense	1,049
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Lake Patrol	8,500
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Legal Ads	139
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Marijuana Eradication	6,065
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Serving Papers	1,785
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Transporting Prisoners	16,644
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Telephone	25,050
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Training	6,115
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Aviation Expense	9,007
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Miscellaneous	2,601	667,766
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STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1997
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Capital Outlay:

Office Equipment		\$	17,500
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Debt Service:

State Advancement	\$	150,000	
Notes		5,000	
Interest		12,161	
			<u>167,161</u>

Total Disbursements		\$	<u>852,427</u>
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Net Receipts		\$	28,718
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Less Statutory Maximum			<u>47,899</u>
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Excess Fees Due County for Calendar Year 1997		\$	0
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Payment to County Treasurer - February 20, 1998			<u>7,365</u>
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Refund Due Sheriff at Completion of Audit		\$	<u><u>7,365</u></u>
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The accompanying notes are an integral part of the financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1997

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official utilizes a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements in management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to Kentucky Revised Statute (KRS) 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

C. Cash and Investments

At the direction of the fiscal court, Kentucky Revised Statute 66.480 authorizes the Sheriff's office to invest in the following including but not limited to, obligations of the United States and of its agencies and instrumentalities; obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposits issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent.

LAUREL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 1997
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of the failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has made such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the Sheriff.

Note 4. Notes Payable

The Sheriff borrowed money during calendar year 1997 to purchase vehicles. The total of notes outstanding as of December 31, 1997 was \$106,426. However, as of December 28, 1998, loans outstanding in the amount of \$83,000 were assumed by the Laurel County Fiscal Court, relieving the Sheriff of all liability for these loans. Therefore, the only loan still remaining as a liability of the Laurel County Sheriff at 12/31/97 was for \$23,426.

<u>Origination Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
8/7/96	8/03/98	9%	<u>\$ 23,426</u>

Collateral security on this note consisted of seven 1991 Chevrolet Cruisers, one 1990 Ford, and one 1991 Ford. Since this note was for the purchase of vehicles, it will be included in disbursements as payments are made on the note. The original note was for \$28,426. \$5,000 was paid on August 7, 1997 reducing the balance to \$23,426.

LAUREL COUNTY
GENE HOLLON SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

December 31, 1997

Assets

Cash in Bank	<u>\$ 5,872</u>
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Liabilities

Obligations Paid After December 31, 1997:

Unpaid Obligations:

1998 Fee Account - 1997 State Advance Paid from 1998 Account	\$ 50,000
Note Payable	<u>23,426</u>

Total Liabilities	<u>\$ 73,426</u>
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Total Fund Deficit as of December 31, 1997	<u><u>\$ 67,554</u></u>
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COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1997

STATE LAWS AND REGULATIONS:

1) The Sheriff Had A \$67,554 Deficit In His 1997 Official Fee Account

Based on available records, there was a deficit of \$67,554 at December 31, 1997. The Sheriff had \$5,872 in the 1997 fee bank account as of December 31, 1997. The deficit partly occurred when the Sheriff repaid \$50,000 of his 1997 state advancement from his 1998 operating account. This created a liability of \$50,000 due to the 1998 account from his 1997 fee account. The \$23,426 note payable represents the balance of the December 31, 1997 deficit. We recommend the Sheriff eliminate future deficits by reducing disbursements.

Management's Response:

The Fiscal Court has indicated they would provide help to eliminate deficit.

2) Borrowed Money Should Be Repaid

The total notes outstanding of the Laurel County Sheriff's office as of December 31, 1997 was \$106,426. However, as of December 28, 1998, the Laurel County Fiscal Court assumed loans outstanding in the amount of \$83,000 and relieved the Sheriff of all liability for these loans. Therefore, the only loan remaining as a liability of the Laurel County Sheriff's office at December 31, 1997 was \$23,426. The original note was for \$28,426, incurred on August 7, 1996. The Sheriff paid \$5,000 on this note in 1997, leaving the \$23,426 balance. We recommend this loan balance be repaid in full.

Management's Response:

We have subsequently paid off the \$23,426 loan. We currently owe no debt.

3) The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$5,575,927, FDIC insurance of \$100,000 and collateral pledged of \$5,500,000 as of November 13, 1997. Even though the Sheriff obtained collateral of \$5,500,000, the collateral was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823 (e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

None.

Prior Year

The Laurel County Sheriff's prior year audit noted that borrowed money should be repaid.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Laurel County Sheriff as of December 31, 1997, and have issued our report thereon dated August 4, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement as of December 31, 1997, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Had A \$67,554 Deficit In His 1997 Official Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Had A \$67,554 Deficit In His 1997 Official Fee Account

Honorable Jimmy Williams, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 4, 1999

